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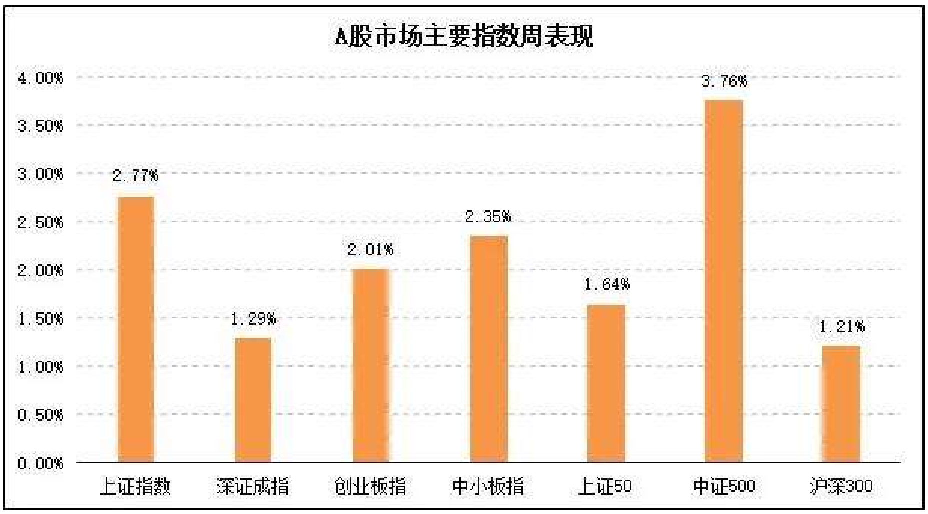
Rosefinch Weekly

Policy supports market sentiment; market follows two main themes

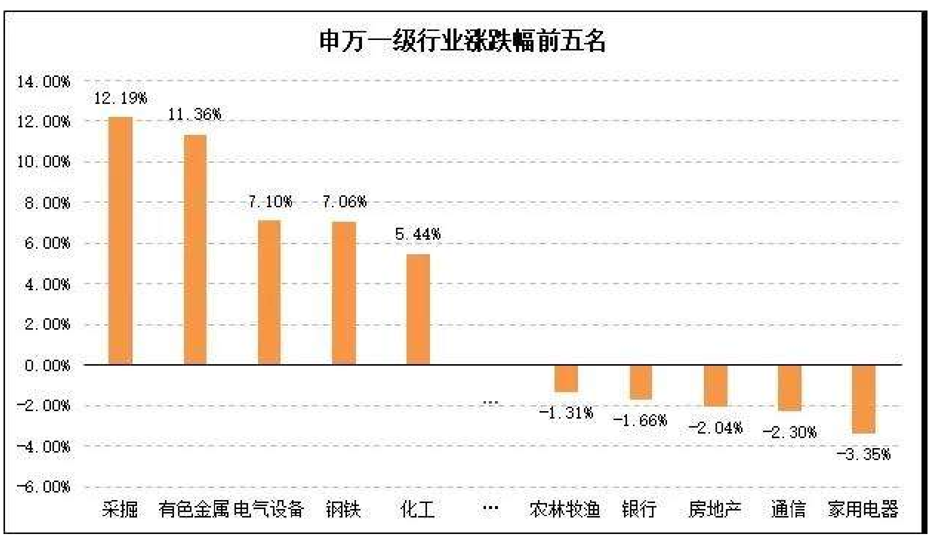
1. Market Review

For the week, A-share market rallied across the board: SSE was +2.77%, SZI was +1.29%, GEM was +2.01%, SSE50 was +1.64%, CSI300 was +1.21%, and CSI500 was +3.76%.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 22 out of 28 rose with excavation, non-ferrous metals, electric equipment, steel, and chemical engineering the top 5 performers.



Source: Wind, Rosefinch

Market volume increased, with Northbound net +18 billion RMB, and Southbound net -4.8 billion RMB.

Source: Wind, Rosefinch

2. Market Outlook

On economic data front, last Monday was the July 2021 industrial profit number with relatively high level of overall profitability. The July 2021 profit level was up +57.3% vs 2020. If we take the two-year average vs 2019, it's +20.2% per annum vs +20.6% in June. The main reasons for the high profitability are: first, export growth remains robust at over 10% growth, creating a healthy outlook for manufacturing sector; second, July commodity price had a clear uptrend, causing rebound in PPI thus higher profitability for upstream industries. In comparison, the downstream industries have higher profit pressure from several factors like lower real estate demand, more challenging export environment, increasing PPI, and US Taper expectations. Having said that, the upstream profit compression pressure is likely higher than downstream.

On macro policy front, PBOC held a few policy meetings with continued emphasis on increasing credit and loan creation. There was concern on the sharp slowdown in credit growth with July RMB loan at 1.08 trillion RMB vs 1.2 trillion expected; M2 at +8.3% vs +8.7% expected; social financing at 1.06 trillion RMB vs 1.7 trillion expected. Going forward, PBOC will implement a combination of effectively loose monetary policy and steady credit growth. These stimulative policies should support market sentiment.

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Equity market follows two main themes: one is for growth stocks with more differentiated sectoral outlooks and rare resources in demand; the other is the rebalancing by capital allocators to divest from high-valuation or high-volatility sectors. But to be clear, the typical cyclical sectors like real estate, building material, construction equipment are not having a much stronger outlook, but rather a better cost-performance ratio. Those funds that are leaving the policy-impacted biopharmaceutical, internet, consumer sectors are also looking for high-certainty sectors. Given the current environment, a more balanced sectoral allocation can reduce portfolio volatility.

Please note at 6 pm Shanghai Time on August 31st, we will host webinar on “Medical Equipment Industrial Chain Research and Investment Perspectives.” Please scan the link attached below to register.

Disclaimer